

Tax Reform for Michigan Schools

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**2007 Emergency Financial Panel
(Blanchard, Milliken, DeGrow, Gilmer, Hillegonds,
Kelley, Roberts, Schwarz, Simon, *et al.*):**

**“Solving the state’s budget crisis
requires a combination of revenue
increases, spending cuts, and reform of
how public services are delivered. No
single silver bullet incorporating only
tax increases, only spending cuts, or
only government reform will work in
either the short term or the long term to
solve the state’s fiscal challenge.”**

House Fiscal Agency Report

- **Since FY 2000, Inflation-Adjusted School Aid Fund Revenue is down 15.7%.**
- **Since FY 2000, Inflation-Adjusted General Fund / General Purpose Revenue is down 43.4%.**

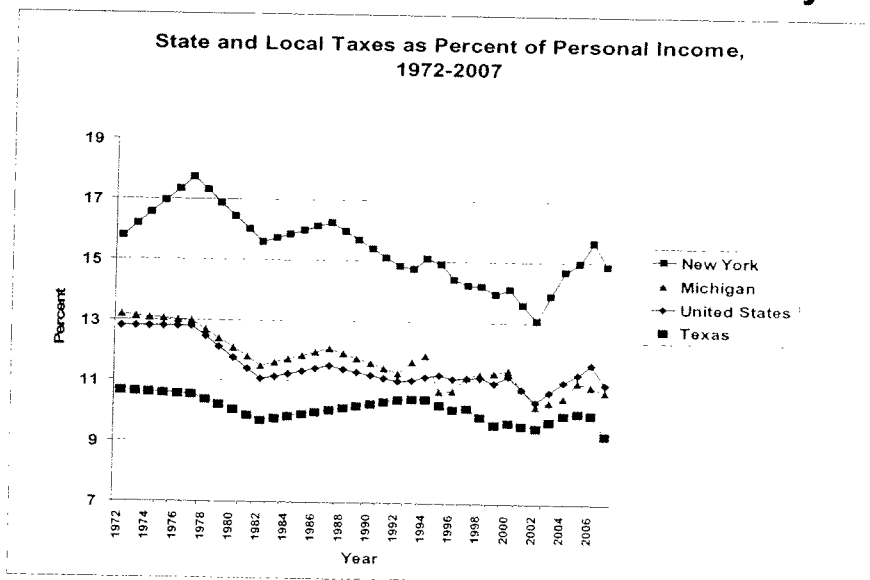
**Despite our recent struggles,
Michigan is not a poor place.**

**If we want to educate our
children properly, the
resources are there.**

State and Local Taxes As Percent of Personal Income:

- Michigan Remains Quite Close to the National Average
- The National Average Has Fallen Substantially

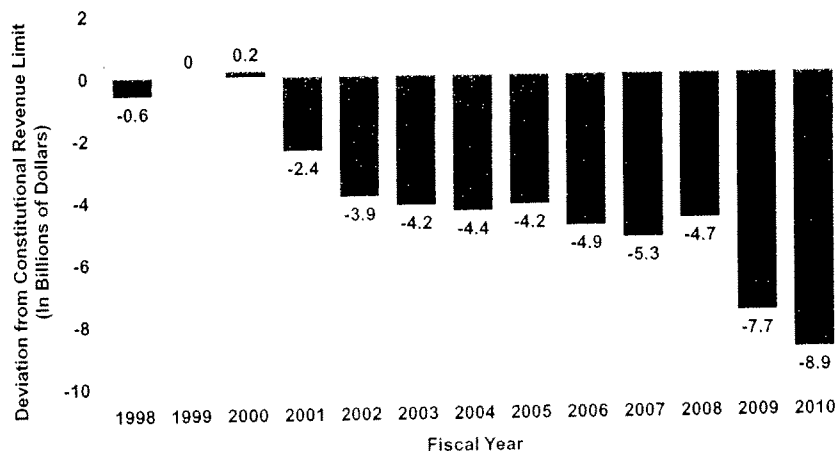
Tax Effort Has Reduced Substantially



- In the 1970s, the portion of all of the income in Michigan that went to taxes was at least two percentage points higher than it is today.
- That works out to a reduction in tax effort of about \$8 billion per year, or more.

State Revenues Have Fallen FAR Below the Constitutional Limit

Deviation of Michigan Revenues from Constitutional Limit
(the "Headlee Limit")



The Structural Deficit:

None of the major sources of revenue for state and local governments in Michigan keeps up with the economy.

Sources of the Structural Deficit In the Sales Tax:

- **The sales tax applies to few services, and services have grown more rapidly than taxed goods. If we tax services, we can raise more revenue and still reduce the rate below its current 6%.**
- **Sales tax is usually evaded on Internet and mail-order sales. (But Michigan can't change this without changes in federal law.)**

Sources of the Structural Deficit In the Income Tax:

- **Our flat-rate income tax is not as responsive to the changes in income as a graduated income tax.**
- **Michigan is more generous to pension income than any other state. The revenue losses grow as our population gets older.**

Other Sources of the Structural Deficit:

- **The property tax has a cap on growth of taxable value.**
- **The taxes on beer and wine are levied on a unit basis, rather than as a percent of value. Thus, they don't keep up with inflation unless their rates are changed. The beer tax was last changed in 1966, when it was decreased.**

What taxes are not dependent on state or federal help?

Unfortunately, not many. ISDs can levy a regional enhancement property tax of up to 3 mills.

- **These haven't had much success at the polls.**

The Michigan legislature could raise additional revenue from a wide variety of sources:

1. Extend the sales tax to services and entertainment!!!!

This did not succeed in 2007. Still, the economic arguments for taxing services are absolutely rock-solid.

**2. Increase the income tax rate
from 4.35% to a higher number.**

At Utah's flat rate of 5%, we would raise \$1 billion more per year, but only about one-fourth would go to the School Aid Fund.

**3. Chip away at the vast array of
tax expenditures.**

**4. Scale back the tax preference
for pension income.**

5. Decouple from the federal estate tax, so that Michigan can once again collect estate tax.

If we were to tax only those estates that are larger than \$2 million, we would raise an additional \$160 million per year.

6. Convert the tax rates on beer and wine to a percentage basis, and/or raise the rates.

If we increase the beer tax to 6 cents per can, we would raise an additional \$90 million per year.

If we raise the beer tax to make up for all of the inflation since it was last changed, we would raise nearly an additional \$200 million per year.

7. All of these reforms have the potential to raise additional revenue.

We should also consider reducing or eliminating the Michigan Business Tax, but only if we replace the revenue.

Longer-Term Possibilities

Tweak Proposal A:

- 1. Greater ability of local DISTRICTS to levy property taxes for schools.**
- 2. Relax the cap on taxable value.**
- 3. Greater state support for capital expenditures, and not just operating expenditures.**

Other Longer-Term Possibilities:

- **Get Congress to give states the right to collect taxes on Internet and mail-order sales.**
- **Establish a Graduated Income Tax (but that would require a Constitutional Amendment).**

Mark, McGuire, and Papke:

“The economic effect of taxes tends both to be small and to be less important than other factors. Labor force availability and quality, for example, appear to be more important ... How tax revenues are spent tends to be important enough that high relative taxes may not be a deterrent to economic growth if the revenues are used to finance services of value to business, such as education and transportation infrastructure. The studies do make clear that a policy of cutting taxes to induce economic growth is not likely to be efficient or cost-effective.”

Michigan, My Michigan

**A song to thee, fair State of mine,
Michigan, my Michigan.
But greater song than this is thine,
Michigan, my Michigan.
The whisper of the forest tree,
The thunder of the inland sea,
Unite in one grand symphony
Of Michigan, my Michigan.**